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ABSTRACT

Empirical evidence is insufficient to support or refute claims that increased competition in the training market in Australia will produce the benefits proponents claim or the severe drawbacks upon which opponents speculate. Research about strengthening demand suggests competitive processes would be feasible in most areas. Research is conclusive about the need for much better information for the effective operation of the training market, but is limited on the role of intermediaries. The literature on increasing the responsiveness of supply in the training market suggests a range of reforms aimed at promoting a more direct customer/training provider relationship, and greater devolution of responsibility and accountability for training decisions to the actual point of delivery is needed to improve market operation. Economists disagree about the degree to which governments, employers, or individuals should meet training costs. There is widespread agreement that training is a shared responsibility between employers and employees, but significant differences exist about the role of governments in investing in training. Research on the role of technical and further education (TAFE) in a competitive training market consistently points to the need to allow TAFE to compete on a level playing field with private training providers. The predominant theme in the literature regarding regulation is the need for greater simplicity, flexibility, and accountability at the interface between provider and client in administrative and regulatory reforms in the training market. (Contains 65 references.) (YLB)

ED 434 264

Developing the training market of the future

A review of research literature prepared as a submission to the Australian National Training Authority

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A review of research literature prepared as a submission by NCVER to the Australian National Training Authority

NCVER

Adelaide 1997

This submission was prepared with funding provided by the National Research and Evaluation Committee.

The author of the report, Damon Anderson, is a research fellow at the Centre for the Economics of Education and Training, Monash University–ACER.

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27 February 1997

Mr Terry Moran
Chief Executive Officer
Australian National Training Authority (ANTA)
AMP Place
10 Eagle Street
BRISBANE QLD 4000

Dear Mr Moran

Developing the training market of the future

I have pleasure in providing you with a submission from the National Centre for Vocational Education Research (NCVER) Ltd as a contribution to the consultations being undertaken by you for the ANTA Ministerial Council (MINCO) on *Developing the training market of the future*.

The NCVER submission is a review of research literature in Australia in recent years. The review is in response to your consultation paper *Developing the training market of the future* (ANTA, November 1996). The review is based directly on examining what, if anything, does the Australian research tell us about the key focus questions ANTA has posed in looking at the future of the training market in Australia.

The overall finding is that general research into training markets in Australia has been more about 'personal ideological positions on competition and market reform in the VET sector than objective analysis of relevant trends and developments'. There is currently insufficient empirical evidence to either support or refute claims that increased competition will produce the benefits being claimed by proponents or the severe drawbacks being speculated upon by opponents of the training market.

On the questions posed about **strengthening demand**, the research suggests there are few areas in which competitive processes would not be feasible. The key strategies needed to give customers (that is, employers/enterprises and individual students/employees) control over training outcomes in the market relate to having direct control of training decisions, sufficient information to make informed choices and assistance to negotiate with training providers. The research suggests that the merits of different mechanisms to support increased competition to empower customers in training markets (that is, fee-for-service arrangements, competitive tendering, preferred supplier arrangements or user choice) depend largely on the specific circumstances prevailing in different segments of the market.

The research is conclusive about the need for much better **information** for the effective operation of the training market. Employers and individuals have different specific information needs but to date neither group has adequate information about the training options, training products and outcomes or about the performance achieved by different training providers.

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In terms of the role of **intermediaries** in a competitive training market, the research is limited. Intermediaries are often proposed as a strategy to empower clients, particularly to alleviate the frustration experienced by small business in not having a single point of information access. Some commentators have argued that intermediaries are another level of bureaucracy and undermine the basic market principle of a direct training provider/client relationship. Australian intermediaries that do exist (such as group training companies) have multiple roles as providers as well as purchasers in the market, making evaluation of their effectiveness as intermediaries difficult. Research has tended to focus on the impact of intermediaries in European economies where they are more prevalent.

Our review of the literature on **increasing the responsiveness of supply** in the training market suggests a range of reforms aimed at promoting a more direct customer/training provider relationship and greater devolution of responsibility and accountability for training decisions to the actual point of delivery are needed to improve the operation of the market. These reforms include the development of more contestability and competition.

On questions about the **funding of training**, economists do not agree about the degree to which the costs of training should be met by governments, employers or individuals. There is widespread agreement that training is a shared responsibility between employers and employees, but significant differences exist about the role of governments in investing in training. The research shows more consensus about the notion that governments ought to heavily subsidise entry-level training. While research is limited on other issues concerning the funding of training, there is consistent support for the notion that there needs to be greater transparency in pricing and costing arrangements for the effective operation of the market.

Research on the role of **TAFE in a competitive training market** consistently points to the need for TAFE to be allowed to compete on a level playing field with private training providers in the market as the trend continues for greater amounts of public training funds being made open to competition. Where strategies to achieve this are suggested, most point to the need for greater operating flexibility through devolution of resources, decision making and accountability to the institute or college level.

And finally, on the question of **regulation**, the predominant theme in the literature is the need for 'greater simplicity, flexibility and accountability at the interface between provider and client' in administrative and regulatory reforms in the training market.

The attached review of the research literature was prepared for NCVER by Damon Anderson of the Centre for the Economics of Education and Training (CEET), Melbourne.

Yours sincerely

Chris Robinson
Managing Director

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Introduction

Competitive training markets are in their infancy in Australia. Research on the nature and effects of market competition, both in Australia and overseas, is limited. Most of the available research in Australia has been commissioned by government authorities and is primarily concerned with developmental and implementation issues. To date little research has been undertaken on the impact and consequences (intended and unintended) of market reforms in the VET sector (Anderson 1996b). Much of what has been written about competitive market practices in other countries or other sectors (for example, health) is not readily transferable or immediately relevant to the VET sector in Australia.

This paper aims to summarise existing policy analysis and research evidence relating to the development of a competitive training market in Australia. In so doing, it draws primarily on Australian literature since 1990. The paper is organised around the seven focus questions that accompany the ANTA consultation paper, *Developing the training market of the future* (ANTA 1996). These are:

- strengthening demand
- information
- intermediaries
- increasing the responsiveness of supply
- funding of training
- TAFE in a competitive training market
- regulation.

By addressing the above issues, the paper attempts to contribute to informed debate about future options for developing a training market. These issues will be discussed in greater depth in a forthcoming review of policy and research literature.

Background: Policy objectives, benefits and pre-conditions

The Commonwealth Government and the State Governments have declared their collective support for the development of an open and competitive training market. To date, however, the concept of a training market has been ill-defined, and characterised by a high degree of terminological inconsistency (Anderson 1996b). Notwithstanding the many and diverse interpretations of the concept, it is generally considered that such a training market will:

- stimulate greater competition among public and private providers and thereby increase incentives for providers to respond to client needs, particularly enterprises/industry
- enhance efficiency and effectiveness in publicly funded training
- increase private investment in training by individuals and enterprises/industry
- promote the development of a more integrated and nationally consistent training system.

Government reports (for example, Deveson 1990; Finn 1991; Carmichael 1992) argue that the benefits of a market-based approach to training provision include:

- greater choice and diversity for consumers
- increased quantity and quality of training provision
- more flexibility, innovation and responsiveness to client needs
- reduced wastage of government resources and lower costs for consumers
- a deeper and more dynamic national skills pool.

According to Burke et al. (1994), the development of a competitive training market involves:

- a large number of actual or potential buyers and sellers
- a relatively standardised or homogeneous product
- sufficient (if not perfect) information about levels of supply and demand.

Effective operation of a market presumes that a direct relationship exists between buyer and seller, and that the market place will be relatively free from external interference.

Proponents for a market-based approach argue that, provided all the necessary pre-conditions are satisfied, competitive training markets will produce beneficial outcomes for key stakeholders (for example, ACG 1994a, 1994b; Deveson 1990; Selby Smith et al. 1996; Taylor 1996). Most agree that, at a minimum, competitive practices have increased the cost-efficiency of training delivery. However, there is a notable absence of any empirical cost–benefit studies to date (WADOT 1995, 1996), and available research suggests that efficiency improvements and other benefits remain unproven (ACG 1994a).

Several researchers and policy analysts have questioned the assumptions underlying current market reforms in VET (for example, Fisher 1993; Anderson 1994, 1995; Barnett 1994; Kell 1993, 1995; Lundberg 1994; Fooks 1995; Ryan 1995; Peoples 1996; Kronemann 1996; and Fooks, Ryan and Schofield 1997). In general, they argue that although competition may improve market efficiency, it may also have adverse social, economic and educational effects which would necessitate new forms of government intervention and regulation to correct market failure. In balance, market critics suggest that the potential costs of market competition may outweigh any potential gains.

Some researchers argue that the potential benefits of competition reforms in VET have not been realised because of an imperfect understanding of the pre-conditions for effective competition, and that the principles underlying the notion of competition have been only partially applied (ACG 1994a, 1994b; Coopers and Lybrand 1996; Fooks, Ryan and Schofield 1997; Selby Smith 1995).

Several authors highlight the need to clarify the scope for, and purposes of, greater competition in the training market (for example, ACG 1994a, 1994b; Fooks, Ryan and Schofield 1997; Lundberg 1994; Ryan 1995; Selby Smith 1995). The Taylor Review (1996) cautions that competition in the training market should not be viewed as an end in itself, but rather as a means to achieve greater efficiency and quality.

Some analysts have noted the tension which exists between competition and co-operation in the training market, and suggest the need to strike an appropriate balance between the two policy principles (ACG 1994b; Anderson 1994; Fisher 1993; Lundberg 1992, 1994).

At present therefore, there appears to be insufficient empirical evidence either to support or refute claims that increased competition in the training market will produce a wide range of benefits not otherwise possible. The positions adopted by commentators on both sides of the debate largely reflect personal ideological positions on competition and market reform in the VET sector rather than

objective analysis of relevant trends and developments. On the one hand, advocates of a competitive training market base their arguments on untested assumptions and deductions from economic theory while, on the other hand, market critics tend to rely heavily on speculation rather then substantive evidence about the actual operation and effects of competitive markets (Anderson 1996b).

The resulting impasse highlights the need for further critical research and analysis. In particular there is a need to undertake a comprehensive and systematic cost–benefit evaluation of training market reforms to date in order to determine the extent to which the desired outcomes have been achieved. Moreover, the need clearly exists for independent research which would identify to key stakeholders the actual and potential consequences (intended and unintended) of a competitive training market (Anderson 1996b; WADOT 1995, 1996).

Strengthening demand

Research suggests that training market reforms to date have placed too much emphasis on supply-side competition at the expense of demand-side responsiveness (ACG 1994a, 1994b; Coopers and Lybrand 1996; Selby Smith et al. 1996). The key to strengthening client focus and provider responsiveness lies not only in enhancing supply-side competition, but also in empowering clients in training decisions.

However, there is considerable disagreement in the literature over the question of who are the principal clients in the VET sector, that is, employers/enterprises *and/or* individual students/employees. A clear and agreed definition is required before decisions can be made about who to empower and how best to achieve the desired outcomes (AGV 1996; Anderson 1995c, 1996b; Ryan 1995; Selby Smith et al. 1996). As Selby Smith et al. (1996, p.9) note, 'the resolution of this difference of view . . . is essential to the design of a training system based on User Choice'.

How can demand be strengthened to give clients control over training outcomes?

The literature suggests that there are three key strategies for empowering clients in the context of market-based transactions (ACG 1994a, 1994b; Coopers and Lybrand 1996). These involve giving clients:

- maximum *direct* control over training decisions
- sufficient information to make *informed* choices
- assistance to *negotiate* with training providers.

'Training decisions' are made in two phases. The first phase involves choices about product characteristics (for example, content, timing, sequencing, location, mode of delivery, assessment and choice of trainer). The second phase involves a purchasing decision in which money (or its substitute) is exchanged in return for agreed goods and services.

As ACG (1994a) has demonstrated, demand can be strengthened by transferring direct control over both product choice and purchasing decisions to clients. In so doing, the locus of decision making is relocated to the demand side of the equation, and the balance of power between provider and client is shifted towards the latter party in the transaction. Private markets for training programs and services

traditionally operate on this basis, and in accordance with the principle of consumer sovereignty (Anderson 1994).

Experience of client-driven training provision in Australia is limited. Research on user choice by Coopers and Lybrand (1996) shows that employers wish to exercise more choice over all aspects of training, but frequently lack the knowledge, experience and resources to do so effectively. This research also indicated that during their initial stages of training, apprentices and trainees 'have very little interest and/or capacity to exercise much influence' (1996, p.38). Lack of knowledge of training options was identified as a major contributing factor. Employers and/or union representatives were typically found to exercise choice on behalf of apprentices and trainees.

A key question is therefore, in what ways can competitive practices be best used to promote direct interaction between providers and clients, to enhance the client focus of training providers, and to empower clients in market transactions?

How can competitive practices be best used to support this achievement?

The ANTA consultation paper, *Developing the training market of the future* (ANTA 1996) identifies four competitive practices that are currently operating in the Australian training market and which have the potential to empower clients to varying degrees:

- fee-for-service (FFS) activities
- competitive tendering (CT)
- preferred supplier arrangements (PSAs)
- user choice (UC).

The paper defines FFS as a private funding mechanism, whereas the rest are defined as public funding mechanisms. Different competitive funding mechanisms are appropriate for different segments of the market, depending on prevailing conditions and desired policy outcomes.

Research suggests that the FFS model is most suitable for promoting competition in the open or commercial training market since it enables clients to exercise maximum control over both product choice and purchasing decisions (ACG 1994b). In general, the FFS model is considered to be inappropriate for VET provision which is expected to deliver non-commercial outcomes, particularly in meeting community service obligations (ACG 1994b; Anderson 1994; Barnett 1994; ESFC 1989).

CT is considered to be appropriate where a large number of potential or actual suppliers exist thus enabling maximum competition (ACG 1994b). As government retains ultimate control over both the product

choice and purchasing decision, CT strengthens supply-side competition but does not necessarily enhance market responsiveness or empower clients.

PSAs have been found to be most effective in promoting supply-side competition in 'thin' markets, that is, where insufficient numbers of providers exist to generate high levels of competition (WADOT 1995, 1996). As with CT, ultimate control over product choice and resource allocation is retained by government. Clients remain one step removed from the training decision.

UC empowers clients by giving them direct control over product choice; it relies less on provider competition although client control of training outcomes is considerably enhanced where a range of competing alternatives exist (Selby Smith et al. 1996). In general, UC is nominated as the preferred public sector model of competition because it empowers clients to a greater extent than other alternatives (ACG 1994a, 1994b; Coopers and Lybrand 1996). Selby Smith et al. (1996, p.7) suggest that, provided certain pre-conditions are satisfied, UC will fulfil the objective of 'establishing a genuine market relationship between training providers, and individual employers and employees, and other clients'. In particular, they argue that 'User Choice has the potential to increase significantly the market power of small business in relation to training' (1996, p.12). Curtain (1995) however, argues that because government retains ultimate control of training resources under UC, clients will be unable to exercise their market power to the fullest extent.

Research from the United Kingdom suggests that Training Credits, analogous to UC, have so far done little to truly empower clients (Coopers and Lybrand 1994a). Insufficient new suppliers of training were found to have entered the market with the result that provider competition remained relatively weak. Competition was found to be strongest between providers delivering training in popular occupational areas and/or located close to each other. Overall, Coopers and Lybrand (1994a, p.4) conclude that Training Credits have had 'limited impact on the training market'.

In addition to the four competitive practices listed above, two other models of demand-driven training provision have been discussed in the literature: *user buys (UB)* and *individual vouchers*. UB and individual vouchers accord clients the same degree of control over product choices as UC, but in addition offer them ultimate control over purchasing decisions/resource allocation. UB has been rejected at this stage as a policy option (ANTA 1994a). Individual vouchers are deemed to be inappropriate due to complexities in financial administration and imperfections in market information (ACG 1994a), although Sweet (1994) argues that these are not insoluble problems.

To date there has been insufficient research on the relative costs and benefits of existing market-funding mechanisms; nor has there been enough research into the viability and potential effectiveness of

alternative models. An approach which combines elements of competitive funding mechanisms may also yield benefits over existing models (for example, ACG cited in ANTA 1996). Further research is required to identify the relative appropriateness of different market-funding mechanisms for different market segments.

What should be done in areas where competitive practices may not be appropriate?

Research suggests that there are few areas in which competitive practices would not be *feasible* (ACG 1994b; Curtain 1995; Selby Smith 1995; WADOT 1995, 1996). In the light of social and economic externalities however, four domains have been identified in which competitive practices may be *inappropriate* as follows:

- training for small business, due to limited access to information and resources
- training in rural/regional areas, due to thin markets
- training for school leavers, due to lack of information, lack of employer sponsors, and high transaction costs
- training for client groups with special needs, for example, people with disabilities, Aboriginal people and Torres Strait Islanders, where the market is highly specialised
- short course provision, due to high administrative costs.

Where competitive practices are inappropriate, ACG (1994a, 1994b) suggests that governments should rely on direct funding and provision in the public sector, combined with a range of supply-side reforms to simulate 'quasi competition' and increase client focus (for example, competitive tendering, performance indicators, quality assurance mechanisms, best practice benchmarking). Targetted support and transparent costing arrangements are proposed for training clients with special needs. However, ACG (1994b) argues that quasi-competitive mechanisms are only a partial substitute for genuine competitive pressures. It suggests that, in the long run, governments should concentrate on empowering consumers, maximising the extent of competitive conditions, and reverting to direct institutional funding of VET providers as a last resort.

In general, the relevant principle for guiding decisions about the role of government is that 'where there is a case that individuals cannot readily exercise their own market choices, the most appropriate government response is to support mechanisms to restore or enhance their ability to do so' (ACG 1994b, p.187). Suggested mechanisms include funding advisory or other intermediaries to provide clients with information and/or to make purchasing decisions on their behalf.

Information

What information is needed for clients to make informed choices?

The provision of sufficient information to enable clients to make informed choices is axiomatic to the effective operation of a training market (ANTA 1994b; ACG 1994a, 1994b; Anderson 1994; Coopers and Lybrand 1996; Deveson 1990; Fooks 1995; Harmsworth 1995; Selby Smith et al. 1996). Research to date however, has consistently found that clients do not enjoy access to adequate levels of accurate, relevant and timely information about the full range, cost and quality of training options available (ACG 1994a, 1994b; Anderson 1994; Barnett and Wilson 1994). Small and medium businesses experience special difficulties in terms of accessing information (ACG 1994a, 1994b; Curtain 1995; Selby Smith et al. 1996). The development, nevertheless, of mechanisms for information generation and dissemination in the training market has received surprisingly limited attention to date.

Information which increases client awareness of training options

At a national and State level, both individual students and employers require information about the full range of accredited training programs and services offered by recognised (TAFE and non-TAFE) training providers. However, as various researchers have noted, national and State registers of training courses and providers remain underdeveloped and inconsistent in format (ACG 1994a, 1994b; Anderson 1994). Clearly, there is a need to improve consumer awareness and product knowledge to ensure that clients can exercise choices over the entire VET sector.

Clients require different types of information depending on their specific needs and circumstances (Anderson 1995b; Selby Smith et al. 1996). Available research suggests that the information requirements of individual students differ from those of employers (see variously ACG 1994b; Anderson 1994, 1995b; Coopers and Lybrand 1996; Selby Smith et al. 1996; Sweet 1993, 1994).

Research also suggests that information requirements differ within each of the two major client groups, that is, students and employers (Anderson 1995b; Coopers and Lybrand 1996; NTON 1994; Selby

Smith et al. 1996). To date, insufficient research has been conducted into the type and level of information required by different client sub-groups.

Information provision in a training market involves considerations relating to:

- *access and equity* (Anderson 1995b; Selby Smith et al. 1996)
- *media for information dissemination* (Anderson 1994, 1995b; Coopers and Lybrand 1996; NTON 1994; Selby Smith et al. 1996)
- *timing of information provision* (Anderson 1995b; Coopers and Lybrand 1996; Selby Smith et al. 1996; WADOT 1995, 1996).

Coopers and Lybrand (1996) found that the provision of information to support effective implementation of user choice entails:

- educative information about what is possible
- factual information about what is available
- evaluative information about program and provider performance.

Information which better defines training products in terms of skill outcomes achieved

The concept of 'training products' remains ill-defined (ACG 1994a, 1994b; Anderson 1996; Fooks 1995; Selby Smith 1995). Generally it is assumed that the product is a particular course leading to a specified qualification. Research suggests that if clients are to make meaningful choices, training products must be defined in terms of the skill outcomes achieved, and the information relating to the course structured accordingly.

There is a general consensus that the National Framework for the Recognition of Training (NFROT) performs a vital role in terms of promoting informed client choice (ACG (1994a, 1994b; Anderson 1994; Lundberg 1994; Selby Smith 1995; Taylor 1996). However, NFROT has been criticised for being unnecessarily bureaucratic, resource-intensive, and overly focussed on inputs (for example, staff, facilities) rather than outputs (for example, course completion rates, competency standards) or outcomes (for example, post-course destinations) (ACG 1994a, 1994b). Hawke and McDonald (1996) identify a number of problems with NFROT including difficulties of 'product recognition'. A survey of commercial training providers supports the need for reforms to the national recognition system (ABS 1996).

ACG (1994a) and Selby Smith (1995) argue for the development of a wider product frame that defines training products in terms of skill outcomes. Noting that current performance monitoring and auditing systems skew the product range towards inputs (that is, enrolments),

ACG (1994b, p.86) identifies a need for 'meaningful, outcome-oriented product descriptors and outcome measurements'. The most frequently identified measures of training outcomes are graduate placement rates (or proxies/indicators such as course completion rates) and customer satisfaction levels. To date however, there has been insufficient consideration of methods for describing and measuring training outcomes.

Information which enables comparison between provider performance at the college level

Research indicates that insufficient information exists on a consistent national or Statewide basis to facilitate meaningful comparisons of provider performance at the point of delivery (ACG 1994a, 1994b; Anderson 1994). In particular there is a dearth of comparable and reliable information on outcomes in both the TAFE and non-TAFE sectors. Steps must therefore be taken to furnish clients with such information to enable them to make effective comparisons of provider performance, and thereby to exert direct competitive pressures on providers.

ACG (1994b) suggests that to enable clients to make meaningful comparisons between training options, all training providers in receipt of public funds should be required to: *record and publish performance indicators on outputs* (course completion/graduation rates); and *outcomes* (graduate destinations including placement in jobs and/or further/higher education); and *conduct, and publish the results of, regular follow-up surveys on graduate destinations* (particularly placement outcomes in the field for which students were trained).

Research by the Auditor General of Victoria (AGV 1996) indicates that development of training outcome measures is incomplete, and that existing information collected at the national level is unsuitable at a State or an institute level. AGV reports that the approaches taken at the institute level have generally been *ad hoc* and have not fully covered all aspects relating to the satisfaction of all clients, or employment outcomes for students. AGV recommends that a 'bottom-up' performance evaluation strategy be implemented on a consistent basis at the State and institute levels. Various indicators are proposed to enable effective evaluation and comparison of provider performance.

Intermediaries

The increasing diversification and growing complexity of training provision has highlighted the need for new mechanisms to facilitate the efficient and effective operation of the training market. The development of intermediaries and intermediary services has been proposed as one potential strategy for empowering clients, particularly small and medium businesses. Available research on intermediaries to date in Australia suggests that their use has improved the quality of assistance to clients (ACG 1994a; DEETYA 1996; NBEET 1996).

What is the role of intermediaries in a competitive training market?

Research indicates that intermediaries can perform the following range of roles in the training market:

- collecting, analysing and disseminating relevant information on training options and provider performance
- assisting clients to make appropriate choices
- purchasing training products on behalf of clients.

The most important role identified for intermediaries is that of information gathering and dissemination to assist clients, particularly small and medium businesses, to make informed choices and training decisions (ACG 1994a, 1994b; Curtain 1995; Sweet 1993; Selby Smith et al. 1996).

ACG (1994b) notes that different types of intermediaries or intermediary services could be tailored to meet the specific needs of individual clients (for example, school leavers) and enterprise clients (for example, small business). Research by DEETYA (1996) on case managers and intermediaries under *Working Nation* provides some insights into this approach.

Fooks (1995) draws attention to the very real potential for the use of intermediaries to create another layer of bureaucracy in the VET system. He suggests the need to evaluate the efficiency and effectiveness of such mechanisms, and to demonstrate how intermediaries would represent the interests of both employers and employees on a fair and equitable basis. He highlights the potential for conflicts of interest particularly where intermediaries are both purchasers and providers of training, as is the case with some group training companies (GTCs). Moreover, he argues that the concept of

intermediaries undermines the basic market principle of a direct provider–client relationship.

What administrative and regulatory arrangements are needed to support this role?

ACG (1994b) reports that ANTA proposed the establishment of a network of 'one stop shops' (for example, GTCs, ITABs) to make information on the VET sector more readily available to enterprises and individuals. ANTA also recognised that staff employed as advisory intermediaries require access to adequate training and information in order to perform their roles effectively. Research by DEETYA (1996) and NBEET (1996) supports such steps.

Taylor (1996, p.141) reports that employers experience difficulties gaining access to the national training recognition system, 'in particular they find the lack of a single point of access to information frustrating'. The report notes however that 'one stop shops' are problematic due to the range of potential enquiries, the number of agencies and the separate roles of the governments involved. Nevertheless, this report strongly argues the need to improve client access to information. To this end Taylor proposes a reduction in the points of training regulation, greater transparency through devices such as client service standards, and the production of 'clear, simple and readily accessible information' (Taylor 1996, p.141).
Curtain (1995) identifies two alternative models for the provision of intermediary services in a training market—government-established and funded intermediaries and independent intermediaries.

Under the first model, government provides the bulk of funds to establish separately incorporated, controlled and managed bodies which operate within a framework of government-determined guidelines, accounting procedures and support services. This model has been utilised in the United Kingdom to establish training enterprise councils (TECs). Curtain (1995) reports that a UK study found that the effectiveness of TECs as brokers in the training market has been impeded by a lack of genuine financial and organisational autonomy.

Independent intermediaries are owned and controlled by business, and have broad coverage of business in a particular industry sector or region. According to Curtain (1995), independent intermediaries are better able to perform the role of broker–facilitator by representing the interests of their business constituency (rather than those of government), promoting resource sharing among local consortia, and purchasing training services on behalf of enterprises clients at the local level. Curtain (1995) identifies the public law or compulsory chambers of commerce which operate in many European countries (particularly France and Germany) as a possible model.

Government regulation and self-regulation are identified as alternative models of regulation for training market intermediaries. Few working models of regulation are documented in the literature, although NBEET (1996) outlines the approach adopted for case managers under *Working Nation* (that is, government regulation), and Curtain (1995) outlines the key features of a self-regulatory model proposed by the British peak body for local chambers of commerce.

Increasing the responsiveness of supply

What reforms are needed to increase the diversity and responsiveness of the supply side of the training market?

A necessary concomitant to strengthening demand signals and client focus is reform of the supply side of the training market in order to increase provider diversity and responsiveness. Available research however, suggests that greater attention must be given to mechanisms for stimulating responsiveness to the skill formation needs of enterprises and other clients (for example, ACG 1994a, 1994b; Deveson 1990; ESFC 1991; Selby Smith et al. 1996; WADOT 1995, 1996).

Issues relating to supply-side reform as addressed in the literature are many and complex. It is generally agreed that, although the specific recommendations of the Hilmer Report (1993) and subsequent national competition reforms endorsed by COAG do not apply explicitly or in their entirety to the Australian VET sector, the underlying principles provide an important benchmark for market reform, particularly in the public VET sector (ACG 1994a, 1994b; Selby Smith 1995; Selby Smith et al. 1996; Taylor 1996).

Reforms proposed in the literature for increasing the diversity and responsiveness of the supply side of the training market include:

- *promoting ongoing structural reform in the public VET sector*, particularly ensuring a clear separation of regulatory from operational functions, and further devolving responsibility for resource management and commercial strategy to TAFE institutions
- *removing barriers to market entry for private providers* by reforming the national training recognition framework
- *increasing the scope for funding contestability*, particularly extending competitive tendering practices
- *establishing competitive neutrality among public and private providers* with respect to community service obligations, tax and capital advantages etc.

- *reforming structures to facilitate competition*, particularly in relation to output/ outcome measurement, information dissemination, and purchasing arrangements
- *facilitating third party access to essential facilities*, including expensive and specialised facilities (for example, libraries, student services)
- *developing consistent costing and pricing policies*, and accrual accounting systems.

ACG (1994b) notes that the federal structure of VET responsibilities poses a range of complex implementation issues which require attention. It argues, nevertheless, that there is considerable scope for further competitive reforms to the supply side of the market.

How can interaction between providers and their clients be promoted?

Many of the key strategies identified in the literature for promoting more direct interaction between providers and their clients have already been identified in previous sections. However, the general principles elucidated in Selby Smith et al. (1996) are noteworthy. The authors point out that the structure of incentives and disincentives in the training market will play a critical role in determining the extent to which providers and their clients interact to maximum effect. Under user choice arrangements which require a shift from centrally determined responses to individual negotiations, 'the achievement of overall objectives will then depend more on responses to the pattern of incentives and structures at the local level than is the case where decisions are more centralised and administered' (Selby Smith et al. 1996, p.24). This implies that more direct provider–client interaction can be promoted through a greater devolution of responsibility and accountability for training decisions (product choices and resource allocation) to the actual point of delivery.

How can competitive neutrality be achieved in a diverse training market operating across State and Territory borders with increased public funding of private providers?

Optimal efficiency and effectiveness in the training market presumes a context in which public and private providers can compete on equal terms. Numerous barriers to competitive neutrality have been identified (ACG 1994b; Anderson 1994; Selby Smith 1995; Selby Smith et al. 1996; WADOT 1995, 1996).

ACG (1994b) argues that although difficult to achieve, competitive neutrality can be approximated by equalising the conditions under which public and private providers compete for public training funds.

These are:

- product description
- outcome measurement
- quality assurance
- community service obligations
- access to common facilities (capital and curriculum).

Selby Smith et al. (1996) identify a number of other issues related to costing, pricing and charging which need to be addressed as increasing amounts of public funds are allocated on a competitive basis to private providers.

The Hilmer Report (1993, p.14) notes that 'there is increasing acknowledgment of the reality that Australia is for most significant purposes a single market'. However, research suggests that the task of ensuring competitive neutrality on a national basis in the Australian VET sector is problematic since funding, administrative and regulatory policies and practices differ dramatically from one State jurisdiction to another (WADOT 1995, 1996; Selby Smith et al. 1996).

Taylor (1996) emphasises the need for reciprocal recognition arrangements. Selby Smith et al. (1996) identify a need for a consistent approach to the costing of training provision in the publicly funded VET sector among State and Territory training authorities. Taylor (1996) and Selby Smith et al. (1996) also suggest that such issues should be addressed within a common and consistent national framework to avoid any potential anomalies and impediments to effective market competition.

In developing a common framework for national competition, account will also need to be taken of the emergence of global and regional markets for education and training services (Anderson 1996b; Fooks, Ryan and Schofield 1997). The National Board of Employment, Education and Training (NBEET 1994) underlines the need for effective links between labour and training markets at the national and regional level.

Funding of training

What should government fund in a competitive training market? What should be funded privately?

Borland (1990), Chapman and Stemp (1991) and Sloan (1994) find little, if any, justification for government subsidisation, or intervention, in the training market. Research by other economists such as Maglen (1990), Maglen et al. (1994) and Marginson (1993) challenges fundamental assumptions on which such contentions are based.

Other analysts have questioned standard economic accounts of training which suggest that employers underinvest in general training because of their inability to capture the benefits of skill development (due to poaching etc.) (Sweet 1990; Fitzgerald 1994). Fitzgerald (1994) maintains that the cause of sub-optimal levels of private investment in training is not poaching, but rather 'short-termism' and a failure by enterprises to appreciate the long-term implications of underinvestment in internal training. He suggests therefore that a principal role of government is to facilitate competitive market conditions to stimulate voluntary collective investment by firms in training.

Following the Deveson Review (1990), a general consensus now exists that public funds should be used primarily to support the acquisition of initial VET qualifications so as to maximise the social and economic externalities of VET (ACG 1994a, 1994b; Fitzgerald 1994; NBEET 1992; Sweet 1990, 1993, 1994). Post-initial training is viewed as the shared responsibility of employers and employees. According to ACG (1994a), the major policy decision for government is to determine the optimal *balance* and *mix* between entry-level training for new entrants to the labour market, and more advanced training for those with jobs or post-school qualifications. Shreeve (1995) questions the utility of such distinctions as a basis for determining where public funds should be allocated.

ACG (1994a) advances both social and economic justifications for supporting a major role for government in the provision of entry-level training for young people and older workers; remedial training to improve the employability of the unemployed; and special measures to ensure access to training by disadvantaged groups. ACG (1994a) considers that on their own, economic considerations do not justify a case for substantial provision of public resources to industry training. ACG (1994a) argues that public resources for industry training should be directed towards sectors dominated by small and middle-sized

enterprises due to the underdeveloped state of their internal labour markets and their reliance on 'deep, diverse and common skill pools'. Principally, ACG (1994a) maintains that government support at the post-initial level should be directed towards market facilitation and the removal of impediments to market competition.

The introduction of more demand-driven funding models poses potential implications for the division of financial responsibility between government and private beneficiaries. Although based on conjecture, various researchers suggest that user choice may produce complex patterns of cost shifting between, and among the various stakeholders (Fooks 1995; Kronemann 1996; Ryan 1995; Selby Smith et al. 1996; Shreeve 1995; WADOT 1995, 1996). Selby Smith et al. (1996, p.11) suggest that if significant instances of cost shifting were to eventuate, 'the traditional arguments about the proportion of training costs to be borne publicly need to be critically re-examined'.

What mechanisms are needed to effectively identify training priorities and translate this into a timely training response?

The nature and requirements of priority setting and strategic planning in a market-driven VET system vary at the national, State and provider level, as do the roles and responsibilities of relevant agencies at each level. ACG (1994a, p.70) argues the need to 'establish a clear-cut separation between the central functions of ensuring the operation of the training market, and planning for adequate levels of publicly provided or publicly funded training, on the one hand, and the function of delivering that training, on the other hand'. It notes that this general type of approach can be applied at the national, State/Territory or TAFE system levels.

Although substantially different from traditional public sector models, Ryan (1995) argues that the planning framework proposed by ACG (1994a) perpetuates a centralised supply-side model of planning and priority setting. Research by WADOT (1995, 1996) suggests that new mechanisms may be required for identifying training priorities and translating them into a timely training response in a demand-driven training market.

In general, consideration of the nexus between planning and market models of training provision in the literature is limited. Available literature suggests the need for more effective mechanisms to link planning and delivery including outcomes-based planning systems, market research strategies, and improved information and communication systems (ACG 1994a, 1994b; Anderson 1994; Coopers and Lybrand 1996; ESFC 1991; Selby Smith et al. 1996; Sweet 1993, 1994). Research also indicates that providers must have sufficient organisational flexibility and autonomy to be able to respond rapidly

and effectively to client needs in a market context (ACG 1994a, 1994b; Anderson 1994; Coopers and Lybrand 1996; Sweet 1993, 1994). However, further research is required.

How should the costs of training be determined in a competitive training market, taking into account the need to balance transparency of costing arrangements with obtaining efficiencies through competitive means?

The need for transparency in costing arrangements has been well established as a fundamental principle for effective competition in the training market (Deveson 1990; ESFC 1991; ACG 1994a, 1994b; WADOT 1995, 1996; Coopers and Lybrand 1996). Tension exists however, between the principle of transparency in costing structures on the one hand, and the need for commercial confidentiality on the other. Selby Smith et al. (1996) report that some stakeholders consider that the requirement for transparent costing under competitive tendering compromises their capacity to compete effectively in the market.

A close substitute for transparency of costing arrangements is the introduction of national benchmarks for determining training costs. Selby Smith et al. (1996) however, argue that an approach based on standardised national unit costs (in the extreme, a single national benchmark) has serious deficiencies. Costing arrangements require further attention.

TAFE in a competitive training market

What are the implications of a competitive training market for TAFE?

Several national reports have predicted that TAFE providers are likely to be subject to greater competition for resources from private and industry providers (for example, ACG 1994a, 1994b; Anderson 1994; Carmichael 1992; Deveson 1990; ESFC 1989, 1991). Each of these reports points to a range of different ways in which TAFE may be affected. The Deveson Review (1990), for instance, suggests that TAFE providers will need to raise new revenue by competing in the industry-funded market. The report identified a need for a number of structural and organisational reforms in TAFE which would facilitate this process.

The ESFC (1991) argues that in a competitive market environment, TAFE staff and colleges will need to improve their ability to identify, understand and satisfy the needs of their clients. Research by Anderson (1995b) concludes that TAFE may lose market share unless steps are taken to improve responsiveness to client needs and preferences.

VEETAC (1992) suggests that the move to a training market has serious staffing implications. It identifies the need for reforms in relation to:

- industrial awards and agreements
- recruitment/employment modes
- induction, teacher preparation and staff development
- people management.

Anderson (1994, 1995a) and Sweet (1994) predict that reliance on market mechanisms is likely to result in a significant redirection of public funds from TAFE colleges to private providers, at least in the medium term. Research suggests that private providers have increased their market share as a consequence of competitive tendering (ACG 1994b; Anderson 1996a). Such a trend highlights the need for TAFE providers to diversify their funding sources. Available data indicate that there has been an incremental shift in the balance of public and private finances in TAFE (Coopers and Lybrand 1994b, 1995).

Research suggests that the impact of competitive market reforms may be greater on smaller TAFE providers, particularly those in non-metropolitan areas (ACG 1994b, Kell, Balatti and Muspratt 1997; WADOT 1995, 1996).

Fooks (1995) argues that an inevitable result of a competition policy over time will be to shift a significant proportion of training resources, including infrastructure, away from public providers into enterprises or training centres controlled by groups of enterprises.

Other implications which relate to the infrastructure, planning systems and student profile of TAFE providers are identified. Fooks, Ryan and Schofield (1996, p. 22) argue that 'TAFE institutions throughout Australia are struggling to maintain their position let alone re-position themselves within a market-based VET system'. Research suggests that the introduction of competitive market mechanisms may have significant implications for the maintenance of TAFE as an integrated system of vocational education and training (Anderson 1994; Brown et al. 1996; Fooks, Ryan and Schofield 1997; Kell 1995; Ryan 1995).

How can TAFE be best positioned to meet the challenges and take advantage of the opportunities presented by a competitive training market?

Research suggests that the capacity of TAFE to compete effectively in the training market is currently constrained by a variety of internal and external factors (ACG 1994a, 1994b; Anderson 1994; Deveson 1990; ESFC 1991; Fooks, Ryan and Schofield 1997).

In general, the research literature proposes that TAFE providers undergo structural and organisational reform in line with national competition principles (ACG 1994a, 1994b; Coopers and Lybrand 1996; Selby Smith 1995; Sweet 1993, 1994). Essentially, this would entail clarifying TAFE's role as a service deliverer, and strengthening both local management autonomy and accountability for outcomes under a light central co-ordinating role. According to ACG (1994a, p.82) 'this puts the focus strongly at the college or institute level at which the direct interaction between provider and enterprises and other clients exists and needs to be strengthened'. ACG (1994b) suggests that such reforms should be accompanied by genuine flexibility in enterprise and workplace agreements.

Selby Smith et al. (1996) note that effective implementation of user choice requires that account be taken of the significant variations between the approaches to systems management adopted in different jurisdictions, and the fact that 'State and Territory training systems start from very different positions' (Selby Smith et al. 1996, p.34).

The Taylor Review (1996) proposes structural and organisational changes to TAFE as part of an ongoing process of micro-economic reform. Like Ryan (1995), it argues the need to clarify the role and expectations of TAFE in terms of identifying its scope of service provision and community service obligations. Two models for TAFE system management are suggested in the Taylor Review (1996): making TAFE providers individual institutions and separate entities; or alternatively, retaining an integrated system with a small centre and a high level of devolution to institutions. However, the report argues that adoption of the Hilmer national competition principles would be 'confusing and unproductive at this stage' as the ANTA Agreement contains a sufficiently strong policy base to enable it to pursue market and competition reform within the VET sector.

Fooks, Ryan and Schofield (1996) propose a new framework to enable TAFE to become a full competitor in the market and, at the same time, balance its roles and responsibilities as the major public provider of VET. Essentially this approach entails conferring on TAFE institutions the same degree of independence as other training providers, and making complementary changes to national planning and funding arrangements. They argue that this approach should be implemented within a broader framework of reforms comprising a national quality assurance system and a comprehensive labour adjustment program for TAFE staff.

Regulation

What changes are needed to the current administrative and regulatory structures to support a competitive training market?

The major theme running through most recent literature dealing with administrative and regulatory reforms in the training market is the need for greater simplicity, flexibility, and accountability at the interface between provider and client.

ACG (1994a, 1994b) proposes that existing structures be rationalised and streamlined in such a way as to promote a demand-side focus for training market reform, and to facilitate more direct interaction between providers and clients, especially enterprises. To this end, ACG (1994a) places strong emphasis on the need to clarify the distinct roles and responsibilities of government as a facilitator and regulator of training market operations. ACG (1994a) highlights the need for improved quality assurance systems and suggests the development of a 'code of best practice' to which public and private providers would commit in exchange for public funds. It also argues that, wherever possible, the accreditation function should be delegated to industry, although it notes that government has a 'key regulatory role' in relation to consumer protection.

Selby Smith (1995) adopts a similar approach by advocating a clearer separation of the regulatory functions of government from operational concerns in accordance with the Hilmer Report (1993). She suggests that it is more appropriate to leave supply adjustments to market forces rather than to government regulation.

The Taylor Review (1996) highlights the complexity of existing administrative structures and bureaucratic processes in the VET system. In particular, it emphasises the need for ANTA to adopt a more strategic approach to its role in the training market and suggests the need for a coherent national strategy for market-linked reform. It notes the difficulties posed by the federalist structure of the Australian VET system, and argues for greater national consistency in approaches to training market development. A set of principles is proposed as a basis for a national policy for competition and market reform in VET.

In relation to regulatory structures, the Taylor Review (1996) recommends that:

- the points of central regulation be reduced in the training recognition system
- responsibility for course accreditation be delegated to providers and States and Territories to enable them to shift their regulatory focus to provider recognition
- legislation be introduced to ensure reciprocity of provider and course recognition between States and Territories.

Fooks, Ryan and Schofield (1996) propose that a national quality assurance system be established to govern the entry to, and operations of, VET providers in terms of safeguarding client interests; and to determine provider access to public training funds. They propose a three-tier system based on 'self-declaration', and supported by a process of independent random audit and the certainty of severe penalties for failure to comply with specified quality standards.

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